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C O N F I D E N T I A L SECTION 01 OF 02 AMMAN 000834

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SUBJECT: AQABA'S ECONOMY TREADING WATER AMID CREDIT CRUNCH

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[1](#)B. 08 AMMAN 1455

Classified By: Ambassador R. Stephen Beecroft
for reasons 1.4 (b) and (d).

[1](#)1. (C) Summary: During a visit to Aqaba, contacts told the DCM that most real estate development projects in the city were on hold due to the lack of financing. Although trade volume through Aqaba's port remains steady, some question whether the fundamentals of Aqaba's economy are strong enough to maintain enthusiasm for investment in the city. A controversial transfer of land occupied by the general cargo port to Emirati investors is behind schedule. End Summary.

Construction Halted

[1](#)2. (C) Contacts in both business and government told the DCM that a dearth of financing from the Gulf and tightening credit lines from Jordan's Central Bank had effectively halted construction on most real estate development projects in Aqaba. With the exception of a few nearly completed hotels, Aqaba is a city of motionless cranes and half-constructed buildings. Contacts portrayed the lack of financing as a temporary problem, emphasizing that most projects were merely paused rather than canceled. The Aqaba Special Economic Zone Authority (ASEZA) Chief Commissioner Hosni Abu Gheida complained that Jordan's central bank was "being difficult" and "completely closing" credit lines in spite of Aqaba's solid fundamentals. (Note: ASEZA serves as Aqaba's local government as well as the administrator of the local economy. End Note.) Gheida remained optimistic that Aqaba would "boom again" once the economic storm had passed.

[1](#)3. (C) The non-real estate indicators of economic activity in Aqaba seem to be holding steady -- volume at the general cargo and container ports remains constant, while shipments from Aqaba's phosphate port are reportedly down slightly. A local businessman in the textile sector, however, said that sales were down in Aqaba just as they were in the rest of Jordan. He accused ASEZA of massaging economic statistics to maintain the perception of economic growth needed to lure investors. The sales manager of the Aqaba Movenpick Hotel told Econoff that bookings were slowly rebounding from the lows of the Gaza crisis in December and January but still reflected the global economic downturn.

[1](#)4. (C) Sheldon Fink, manager of the Aqaba Industrial Estate, a business park set up to attract international investors, said that his goal was "to break even this year" in the hopes of a return to business as usual in 2010. He portrayed the slump as a wakeup call for ASEZA, which had offered little in the way of government support for investors under Abu Gheida's leadership. Now that the momentum of investment was slowing, ASEZA found itself courting developers more aggressively and doing more to keep existing projects afloat. Fink warned that if the downturn pushed further into 2010 than expected, there was a real possibility that real estate projects could be cancelled, leading to a serious challenge

to ASEZA and the growth assumptions of its economic model. Nevertheless, Fink (generally a skeptic about ASEZA's capacity) confided that the situation is better than he expected a year ago, and that he is moving forward with a deal to export energy from Aqaba to neighboring Eilat because he remains optimistic about Aqaba's long term future.

Port Deal Developments

15. (SBU) In 2008, Jordan's government sold the land currently occupied by Aqaba's general cargo port to an Emirati holding company for 500 million dollars -- money which was used to buy back Jordan's debt from Paris Club members. At the time, members of Jordan's political elite heavily criticized the deal, which coincided with several other high-profile privatizations of public land (Ref A). Ghassan Ghanem, Vice Chair of Aqaba Development Corporation (which currently owns the port) emphasized to the DCM the positive aspects of the deal, noting that the up-front costs of infrastructure development would be the responsibility of the developers, and that ASEZA would receive three percent of all revenue generated by the project.

16. (C) Despite ADC's rosy view of the port deal, the group still has significant work to do if it is to abide by the terms of the contract and avoid costly penalties. The first area slated for transfer in July 2009 is a residential zone of still-occupied apartment blocks and two story villas which must be razed and cleared. Ghanem said that ADC was nearly finished with a compensation agreement that will be presented to residents of the area, and expected that it would be

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released in the coming weeks. Anticipating legal challenges and the time necessary to clear the area, it seems highly unlikely that the first tranche of land will be ready for transfer in time. On the up side, the planning and construction of the new general cargo port seems to be on schedule.

17. (C) Ghanem told the DCM that there were "hidden provisions" in the port contract which could be used to permit the construction of casinos in the new development, and predicted that gambling (at least for non-Jordanians) would be a reality in five years. He brushed aside the public furor of summer 2008 over the now-cancelled Dead Sea casino project, calling it a "public relations operation" designed to prepare public opinion for legalized gaming.

Comment

18. (C) Aqaba's business elite is taking the economic slowdown in stride for the time being. Forward momentum on the city's many construction and development projects has stalled, but there are no signs that Aqaba's economy is losing ground. Aqaba's political and economic chieftains are keeping a positive attitude and hoping that the economy recovers quickly, knowing that the cancellation of a large real estate project could spook international investors and put a rapid end Aqaba's real estate boom. If investors flee, it would put Aqaba's leadership, already the subject of doubt, under the microscope.

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